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FM AMEMBASSY BEIJING  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3724  
RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE  
RUCPDOC/USDOC WASHDC IMMEDIATE  
RUEHC/DEPT OF LABOR WASHDC IMMEDIATE  
RHMFIS/DEPT OF ENERGY WASHINGTON DC IMMEDIATE  
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UNCLAS E F T O SECTION 01 OF 03 BEIJING 000262

SIPDIS

SENSITIVE  
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STATE ALSO FOR OES/WATSON AND DEROSA-JOYNT  
STATE PASS CEQ CONNAUGHTON  
STATE PASS CEA FOR BLOCK, SLAUGHTER  
STATE PASS USTR FOR STRATFORD, ALTBACH, WINTERS, CELICO  
STATE PASS FEDERAL RESERVE BOARD FOR JOHNSON/SCHINDLER; SAN  
FRANCISCO FRB FOR CURRAN/LUNG; NEW YORK FRM FOR DAGES  
NSC FOR RHUNTER/JSCHEIER/KTONG  
TREASURY FOR OASIA/INA DOHNER/HAARSAGER/BAKER/CUSHMAN  
TREASURY FOR TAIYA SMITH  
DOE FOR INTERNATIONAL/PUMPHREY AND GEBERT  
EPA FOR INTERNATIONAL/AYRES, FIDLER, MCASKILL  
HHS FOR STEIGER, ELVANDER AND BHAT  
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E.O. 12958: N/A

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SUBJECT: SED SESSION TWO: RURAL AND URBAN BALANCED  
DEVELOPMENT

REF: BEIJING 259

¶1. (SBU) In the December 14 Strategic Economic Dialogue (SED) luncheon session on rural and urban balanced development, Finance Minister Jin Renqing outlined a recurrent SED theme ) how to raise the standard of living in China's countryside to narrow the rural-urban income gap. Policies to achieve this include increasing public spending in rural areas (particularly on infrastructure and social services), reducing the tax burden on rural residents, improving the provision of public services and promoting a more market oriented agricultural policy. End Summary.

VICE PREMIER WU YI: RURAL POLICY A TOP PRIORITY

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¶2. (SBU) Vice Premier Wu Yi opened this session of the Strategic Economic Dialogue (SED) by stating that in order to understand China and the government's economic policy, it is necessary to understand China's countryside and the Central Government's commitment to establishing the "New Socialist Countryside." Raising both agricultural productivity and rural incomes remains a top policy priority for the Central Government.

SECRETARY LEAVITT: UNDERSTANDING RURAL HEALTH CHALLENGES

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¶3. (SBU) Secretary of Health and Human Services Michael Leavitt noted that his trip to Sichuan Province in southwestern China in the week preceding the SED had deepened his understanding of the health care challenges facing rural China, including the need for better transportation to hospitals. Vice Premier Wu expressed her appreciation of

Secretary Leavitt traveling to China's rural areas.

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MINISTER JIN: ADVANCING RURAL DEVELOPMENT

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¶4. (SBU) Jin Renqing, Minister of Finance, outlined the Central Government's five initiatives to reduce the income and social services gap between China's rural and urban communities (on average rural incomes are one third of urban incomes):

- (1) Increase public spending in rural areas;
- (2) Reduce the tax burden on farmers to increase rural incomes;
- (3) Improve living conditions by increasing expenditures on rural infrastructure;
- (4) Equalize the provision of and access to public services between rural and urban areas by canceling school tuition in the countryside and expanding rural health insurance; and
- (5) Promote a greater role for market forces in agriculture and strengthen democratic management of villages.

THE ROLE OF THE PRIVATE SECTOR

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¶5. (SBU) In response to Secretary of Commerce Carlos Gutierrez's question about the role of the private sector in absorbing migrant labor in the cities, Minister Jin said that with limited arable land, it is natural for farmers to migrate to urban areas. Jin estimated that there are now 200 million migrants in China. The Central Government encourages

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migration, but there is a need to manage the flow in order to avoid slums in large cities, Jin said. The private sector will play an important role by absorbing migrant labor, he added.

THE ROLE OF PRIVATE OWNERSHIP OF LAND

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¶6. (SBU) In response to a question from Assistant Secretary of State Daniel Sullivan on efforts to promote private property rights, Jin defended China's collective ownership model. He did acknowledge, however, that if farmers migrate to cities, there should be laws in place to allow them to transfer their rural land to others.

BUILDING: ROADS AND CUTTING ELECTRICITY COSTS

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¶7. (SBU) Minister of Finance Jin stated that China has made significant progress in driving rural development by establishing a modern road network. Chairman of the National Development Reform Commission (NDRC) Ma Kai noted that China has also expanded its power sector. Moreover, the Central Government has reduced power tariffs for rural residents so that they are now charged the same rate as city dwellers.

LUNCHEON SESSION PARTICIPANTS LIST

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¶8. (U) United States Delegation:

--Henry Paulson, Secretary of Treasury  
--Clark T. Randt, Jr., United States Ambassador to China  
--Michael Leavitt, Secretary of Health and Human Services  
--Samuel Bodman, Secretary of Energy  
--Carlos Gutierrez, Secretary of Commerce  
--Elaine Chao, Secretary of Labor

--Susan Schwab, United States Trade Representative  
--Stephen Johnson, Administrator of the Environmental Protection Agency  
--Benjamin Bernanke, Chairman of the Federal Reserve  
  
--James Lambright, Chairman and President of Ex-Im Bank  
--Daniel Sullivan, Assistant Secretary, Department of State  
--Andrew Steinberg, Assistant Secretary, Department of Transportation  
--Matthew Slaughter, Member of the Council of Economic Advisors

19. (U) Chinese Delegation:

--Wu Yi, Vice Premier  
--Jin Renqing, Minister of Finance  
--Ma Kai, Chairman of National Development and Reform Commission  
--Xu Guanhua, Minister of Science and Technology  
--Tian Chengping, Minister of Labor and Social Security  
--Liu Zhijun, Minister of Railways  
--Li Shenglin, Minister of Communications  
--Wang Xudong, Minister of Information and Industry  
--Bo Xilai, Minister of Commerce  
--Gao Qiang, Minister of Health  
--Zhou Xiaochuan, Governor of People's Bank of China  
--Li Changjiang, Administrator of General Administration of Quality Supervision, Inspection, and Quarantine  
--Zhou Shengxian, Administrator of State Environmental Protection Administration  
--Zhou Wenxhong, Chinese Ambassador to the United States  
--Xu Shaoshi, Deputy Secretary-General, State Council

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--Yang Jiechi, Senior Vice Minister, Ministry of Foreign Affairs  
--Zhang Xiaoqiang, Vice Chairman, National Development and Reform Commission  
--Li Yong, Vice Minister, Ministry of Finance  
--Yi Xiaozhun, Vice Minister, Ministry of Commerce  
--Hu Xiaolian, Vice Governor, People's Bank of China  
--Li Ruogu, Chairman of China Export-Import Bank  
SEDNEY